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C O N F I D E N T I A L ANKARA 02680

SIPDIS

CX:

ACTION: AMB

INFO: POL PA PMA LEGAT GSO FCS ECON DAO CONS DCM

DISSEMINATION: AMB /1

CHARGE: PROG

APPROVED: DCM:NMCELDOWNEY

DRAFTED: ECON:DEPPLER

CLEARED: POL:JWEINER, PMA:CSIEBENTRITT

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FM AMEMBASSY ANKARA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 4218

INFO RUCNRAQ/IRAQ COLLECTIVE IMMEDIATE

RUEHKB/AMEMBASSY BAKU IMMEDIATE 1539

RUEHDM/AMEMBASSY DAMASCUS IMMEDIATE 1676

RUEHIT/AMCONSUL ISTANBUL IMMEDIATE 3482

RHMFISS/EUCOM POLAD VAIHINGEN GE IMMEDIATE

RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE

RUEKJCS/JOINT STAFF WASHDC//J-3/J-5// IMMEDIATE

RUEKJCS/SECDEF WASHDC//USDP:PDUSDP/ISA:EUR/ISA:NESA/DSCA//

C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 002680

SIPDIS

ANKARA PASS ADANA

E.O. 12958: DECL: 10/31/2017

TAGS: [KFPC](#) [ECON](#) [ETRD](#) [ETTC](#) [PREL](#) [EAIR](#) [TU](#)

SUBJECT: MINISTERS TO DECIDE ON ECONOMIC SANCTIONS AGAINST
NORTHERN IRAQ

Classified By: DCM NANCY MCELDOWNEY FOR REASONS 1.4 B AND D

¶1. (C) Summary: The Turkish Council of Ministers will meet in emergency session on October 31 to consider authorizing economic actions against Northern Iraq. Four potential measures are on the agenda: cutting off of electricity exports, closing road access through Habur Gate, restricting Turkish exports to Iraq, and restricting civil aviation overflights. The GOT will have difficulty finding measures that hit the PKK and KRG without also harming Baghdad, the U.S. military, humanitarian supplies and Turkey's own economic interests. However, given the enormity of public outrage over PKK attacks and the unresolved hostage crisis, this may well be a price the GOT is willing to pay. End summary.

Cutting Off Electricity

¶2. (C) An electricity cut would have no appreciable economic affect on Turkey, which needs more electricity and can re-direct this power to domestic use. But it is not clear that a cutoff would have the desired effect. Turkey currently exports 200 MGW of electricity to Iraq. Although the electricity enters through northern Iraq, no one is sure exactly where it is being consumed. Second, even assuming that the effect is felt mostly in the north, those who would be most affected would be the poor and public services (schools, hospitals, etc.) that cannot afford back-up generators. While cutting off power is not likely to be

highly targeted or effective, it would be public, dramatic and easily turned on and off, making it an attractive, if inefficient, weapon.

Trade restrictions

13. (SBU) Turkey's trade with Iraq is slowly declining. From a peak of \$5 billion in 2005, trade was reduced to \$3 billion in 2006, \$2.6 billion of which was Turkish exports to Iraq (according to official GOT data, which does not take into account widespread smuggling of fuel and cigarettes, or remittances by the 20,000 Turks working in Iraq). Payment problems faced by Turkish companies exporting to Iraq have played a part in the slowdown, as has competition from other countries in a market Turks previously had all to themselves. Major exports are food, consumer products and cosmetics, and cement.

14. (SBU) National Turkish business groups publicly have been supportive of taking economic measures against Iraq. The Turkish Union of Chambers and Commodity Exchanges (TOBB), Turkey-Iraq Business Council, Turkish Exporters' Assembly, and the Turkish Travel Agencies' Union have all voiced unconditional support for whatever measures the GOT adopts, with TOBB Chairman Rifah Hisarciklioglu saying they support an embargo "regardless of cost." However, Diyarbakir Chamber of Commerce President Mehmet Kaya was more cautious, saying the GOT should consider how important the Iraqi market is to eastern Turkey in taking any economic measures. Kaya noted that 200,000 people in the region make a living from Iraqi trade, and they would be unemployed if the border were closed. Turkey-Iraq Business Council Chairman Erument Aksoy told us that it would be very difficult to limit a trade embargo to just Northern Iraq, and cutting off food exports would contradict the GOT's public position that the Iraqi people should not be punished.

Restricting Habur Gate and Re-Directing Trade Across Syria

15. (C) Habur Gate is the main border crossing for vehicles traveling between Turkey and Iraq and is a key point in the supply line for U.S. forces in Iraq. The bulk of Turkish-Iraqi trade passes through Habur, complicating any decision to close or restrict access there. The focus of any action at Habur likely would be to cut off revenues to the KRG by opening an alternative trade route via Syria that bypasses the KRG-controlled north. The KRG takes in about \$200 million per year in revenue from traffic through Habur Gate (The KRG reportedly charges trucks a \$100 fee for crossing Kurdish territory. There are unconfirmed press reports that the PKK also extracts a \$50 per truck fee.) This is a prime target because it puts pressure on the KRG without causing the humanitarian problems that would come with electricity and foodstuffs cut offs. But Turkish Iraqi Business Council Chairman Aksoy said this would require Baghdad's approval of truck routes through Syria and continuing to allow the US military to use Habur for supply convoys to Iraq.

Restricting Civil Aviation Overflights

16. (C) Discussion of restricting Turkish airspace for flights to Irbil first arose last summer after PKK financier Riza Altun was allowed to board a flight in Vienna that overflew Turkey on its way to Irbil. The easiest targets would be charter flights from Turkey and overflights by Kurdish-owned planes. More difficult would be denial of overflights to European companies that now fly into Irbil directly. The GOT's likely target is to isolate Irbil and make international travelers fly through Baghdad to reach Northern Iraq.

17. (C) Civil Aviation Deputy Director General Haydar Yalcin told us that there currently are no restrictions on overflights to Iraq or Northern Iraq. A Sri Lankan-registered charter flight from Irbil to Adana was

turned back last week due to technical deficiencies, Yalcin said, but this happened because the owners had not remedied problems they had detected in September, and he noted that the plane contained mainly returning Turkish workers.

Seizure of Iraqi oil at Ceyhan

¶18. (C) There have been sporadic reports that Iraqi oil flowing through the Kirkuk-Ceyhan pipeline recently had been seized by the Turkish state pipeline company BOTAS, acting under a court order. GOT sources have said they did not know of any such action, but all emphasized that BOTAS would be well within its rights to do so. According to the GOT, Turkey is owed approximately \$900 million by Iraq for pipeline transit fees. The fees arise under the Saddam-era transit agreement, under which Iraq agreed to pay a transit fee of \$1 per barrel on half the capacity of the pipeline as a minimum guarantee. With the pipeline having been out of operation for months at a time, the Iraqis built up a huge debt under this contract clause. We asked contacts at British Petroleum, which operates the Baku-Tbilisi-Ceyhan pipeline, if they knew of any seizure of oil at Ceyhan from the Kirkuk pipeline. Director for Exploration and Production Djan Suppi told us that his office in Ceyhan reported that BOTAS was holding Iraqi oil, and that it had nearly filled all the storage available at Ceyhan. They did not know under what authority BOTAS was acting.

¶19. (C) The GOT may have initiated this seizure to send a message to the Iraqis. According Genel Enerji general manager Orhan Duan, who formerly worked at TPAO, impounding Iraqi oil, or threatening to do so, is a tactic Turkey has used successfully in the past to get Iraq to pay its debt to Turkey. It is equally likely that BOTAS did this on its own under heavy financial pressure (it has \$10 billion in uncollected receivables). In any case, this opens up another economic option for Turkey. Recent Iraqi threats to cut off oil to Turkey are not credible, both because Iraq stands to lose more than Turkey from an embargo, and because Turkey has sufficient oil supplies from other sources to meet its domestic needs.

Targeting Barzani family investments in Turkey

¶10. (SBU) Masoud Barzani is at the epicenter of the PKK crisis and is a target of both government and public rage. Newspapers and television media reports have focused on his investments in Turkey and suggested sanctions be aimed at these companies. In the Mersin Free Trade Zone, the Barzanis reportedly operate seven companies: Golden Universal, Feder Foreign Trade, Dolphin Foreign Trade, Sunset Advisors, Teknotas, Sonmezler Transport and As Marketing. In Gaziantep, the Barzanis are reported to own the Emin Foreign Trade, Petroleum and Agricultural Production Company. In Istanbul, Barzani family members are reported to own the Zagros Construction and Foreign Trade Company. In addition, Barzani is reported to have large interests in the Kahy and Fahir Ibrahim Muhammet cigarette companies, whose products are sold in Turkey. It is not clear what actions the GOT might take against these companies, but tax investigations seem a likely step.

Visa restrictions on Iraqis

¶11. (SBU) Turkey-Iraq Business Council Chairman Aksoy also mentioned imposing visa restrictions on Iraqis as a potential action, claiming that Turkey is the only country that offers visas to Iraqis. This would be an easy tool to employ, particularly because it could be targeted.

Comment

¶12. (C) Each of these measures carries a down side. But the costs of inaction are even higher for a newly elected government facing enflamed public demands for immediate

action against the PKK. Turkey will move against the PKK:
the question is when, how and whether they will do so in
conjunction with the United States. End comment.

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